

**BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN**

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**Application of Milwaukee Water Works, Milwaukee  
County, Wisconsin, for Authority to Increase Water  
Rates**

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**3720-WR-107**

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**SURREBUTTAL TESTIMONY OF DAVID PROCHASKA**

**August 5, 2010**

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1   **Q.     Please state your name.**

2   A.     My name is David Prochaska.

3   **Q.     Have you previously submitted direct testimony in this proceeding?**

4   A.     Yes.

5   **Q.     What is the purpose of your surrebuttal testimony?**

6   A.     The purpose of my surrebuttal testimony is to address rate design issues discussed in the  
7           supplemental rebuttal testimony of MillerCoors witness Michael Gorman, the  
8           supplemental rebuttal testimony of Wholesale Customers witness Eric Rothstein, and the  
9           rebuttal testimony of Milwaukee Water Works witness Carrie Lewis.

10  **Q.     On page R13.22 of his supplemental rebuttal testimony Mr. Gorman states, “I**  
11           **suggest that because of substantive deficiencies I and other intervenors identified,**  
12           **Staff’s cost of service study should be set aside and rates for all customer classes**  
13           **should be adjusted equally.” How would you respond to this?**

14  A.     I do not agree with Mr. Gorman’s assessment of Mr. Behm’s cost of service study. On  
15           the contrary, I believe it corrects deficiencies of prior MWW rate case cost of service  
16           studies and should be relied upon for my rate design. Cost based rates are fundamental to

1 the Commission's regulation of public utilities. Mr. Gorman's suggestion of an equal  
2 "across the board" increase for all customer classes will only exacerbate any  
3 shortcomings in prior MWW cost studies. Andrew Behm from Commission staff is  
4 addressing the cost of service concerns raised in this docket.

5 **Q. On page SR2.109 of his supplemental rebuttal testimony Mr. Rothstein states, "...a**  
6 **fundamental principle of ratemaking...is...that the public interest is served by**  
7 **tempered, gradual rate adjustments. Yet, the PSC has failed to require such**  
8 **tempering in considering MWW's revenue requirement request." On page SR2.110**  
9 **Mr. Rothstein states, "Perhaps, what is most disconcerting about MWW's rate**  
10 **increase request and PSC's affirmation of MWW's requested revenue requirements**  
11 **with minor adjustments is that it fails to recognize that such dramatic rate increases**  
12 **are simply not needed." How would you respond to this?**

13 **A.** In its last conventional water rate case in docket 3720-WR-106, MWW requested a 3.30  
14 percent rate of return resulting in an overall 6 percent increase in water revenues which  
15 became effective June 1, 2007. The benchmark rate of return at that time, the maximum  
16 rate of return that the Commission generally approved for municipal water utilities, was  
17 6.50 percent.

18 A Simplified Rate Case (SRC) increase of 3.8 percent in docket 3720-WQ-102  
19 for MWW became effective September 1, 2009.

20 In this rate case, MWW requested the current benchmark rate of return, 6.50  
21 percent, for wholesale customers and a 5.00 percent rate of return for retail customers for  
22 an overall rate of return of 5.18 percent. This results in an overall revenue requirement  
23 increase of 25.3 percent (25.5 percent in the proposed rate design) over the present

1 MWW water revenues. While this is a larger percentage increase than in prior MWW  
2 rate cases, it is not an unreasonable request. The fact that MWW requested and received  
3 a lower rate of return in its last conventional rate case to mitigate the increase to  
4 customers is the main reason why the rate increase percentage is larger in this rate case.

5 I believe the current MWW rate case is an instance where percentages don't tell  
6 the whole truth. MWW rates, retail and wholesale, present and proposed, are currently  
7 among the lowest in the state and in the nation. Exhibit 1.16 shows a national  
8 comparison of retail water rates for large industrial customers. Exhibits 1.12 and 1.13  
9 show a comparison of residential retail water rates in a seven-county area in Wisconsin  
10 (Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha  
11 Counties), and this was before MWW's requested reduction in the revenue requirement.  
12 Exhibit 12.15 shows a comparison of wholesale water rates in Wisconsin.

13 In spite of all of its so-called "substantive deficiencies," our cost of service study  
14 model and rate design practices have resulted in fair and reasonable retail and wholesale  
15 water rates for MWW customers, just as they have for all public water utility customers  
16 in the state of Wisconsin for the 35-plus years we have been using them. Our cost of  
17 service study model and rate design practices serve the public well.

18 **Q. On page R1.6 of her rebuttal testimony Ms. Lewis states, "The rates for private fire**  
19 **protection service (Pf-1) have not changed since rate case 3720-WR-104. The**  
20 **effective date of that rate case was June 1, 2002. I request that PSCW staff review**  
21 **these rates for increase." How would you respond to this?**

22 **A.** In docket 3720-WR-104, MWW's calculated costs of private fire protection service were  
23 less than the existing Schedule Pf-1 charges. However, Thomas McDonald of

1 Commission staff elected to increase the existing Schedule Pf-1 charges by same  
2 percentage as the overall rate increase, 10 percent. In MWW rate cases since then, the  
3 calculated costs of private fire protection service have continued to be less than the  
4 existing Schedule Pf-1 charges. In those cases, I have elected to keep the Schedule Pf-1  
5 charges at their present levels. In future MWW rate cases, when the calculated costs of  
6 private fire protection service exceed the existing Schedule Pf-1 charges, I would  
7 increase the Schedule Pf-1 charges appropriately.

8 **Q. Does this conclude your surrebuttal testimony?**

9 **A. Yes.**